

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0818-01
Bill No.: HB 198
Subject: Fees; Water Resources and Water Districts; Energy; Corporations
Type: Original
Date: February 5, 2013

Bill Summary: This proposal changes the laws regarding infrastructure replacement surcharges for water corporations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on General Revenue Fund	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

§§ 393.1000 and 393.1003 - Infrastructure Replacement Surcharge:

Officials from the **Department of Economic Development - Office of Public Counsel (OPC)** state this proposal would expand existing legislation so that at least five more service areas for major population centers could take advantage of the opportunity to adjust rates. Currently only one service area has this option. The proposed legislation also expands the definition of "Water utility plant projects" such that items are included that will raise the question of prudence on investment question.

OPC states prudence audits require significantly more analysis than investment verification analysis and require both financial and engineering analysis. Expansion of eligibility for the single issue rate mechanism provided under this proposal also increases the number of rate cases, thus requiring additional resources to analyze all utility costs and process the rate case before the Public Service Commission. Single issue rate mechanisms that exclude consideration of other utility operating revenues, costs, and net investments do not provide ratepayers assurance that the ratepayers are paying just and reasonable rates in total. The required rate case will be the only opportunity to ensure that total rates are just and reasonable.

OPC assumes this proposal will create significant additional responsibilities for OPC staff, requiring the addition of 2 FTE's with specific professional expertise to address the complex legal, engineering and financial issues that will be raised by this proposed legislation.

OPC assumes this proposal significantly expands the service territories that could face rate increases and also expands existing statutory authority. This expansion results in new regulatory issues currently not addressed. The proposed legislation effectively will require additional mandatory rate cases which are necessary in order to consider all relevant factors of a utility consistent with case law on setting rates.

Oversight assumes it is unknown how many cases would be subject to review. For fiscal note purposes only, **Oversight** will show no additional personnel costs. Should a sufficient number of cases warrant additional personnel, those personnel may be requested through the appropriations process.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials from the **Department of Natural Resources, Department of Revenue, Administrative Hearing Commission, Missouri Public Service Commission, and Missouri Tax Commission** each assume the proposal would not fiscally impact their respective agencies.

Officials from numerous Water and Sewer Districts did not respond to **Oversight's** request for fiscal impact.

Oversight assumes this proposal could result in unknown rate increases for state government, local government, and small businesses.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
<u>Cost - State Agencies</u>			
§§ 393.1000, 393.1003 - Increased water service rates	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
LOCAL POLITICAL SUBDIVISIONS			
<u>Cost - Local Political Subdivisions</u>			
§§ 393.1000, 393.1003 - Increased water service rates	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>

FISCAL IMPACT - Small Business

This proposal could result in an increase in utility costs to operate a small business.

FISCAL DESCRIPTION

§§ 393.1000 and 393.1003 - Infrastructure Replacement Surcharge:

This proposed legislation changes the laws regarding infrastructure replacement surcharges for water corporations. In its main provisions, the proposal:

- (1) Revises the definition for "eligible infrastructure system replacements" to include energy efficiency projects that are in service, used, and useful; do not increase revenues by connecting the infrastructure replacements to new customers; and were not included in the water corporation's rate base in its most recent rate case and defines "energy efficiency" as measures that reduce the amount of energy required to achieve a given end result;
- (2) Adds service lines and meters that have worn out, are in a deteriorated condition, or replaced as part of an order issued by the Missouri Public Service Commission, as well as energy efficiency projects, to the list of projects that are allowable water utility plant projects; and
- (3) Allows, beginning August 28, 2014, all water corporations to file a petition and proposed rate schedules with the commission to establish or change its infrastructure system replacement surcharge rate schedules that will allow for the adjustment of the corporation's rates and charges to provide for the recovery of costs for eligible infrastructure system replacements. Currently, only water corporations in St. Louis County are allowed to file a petition and proposed rate schedules.

KB:LR:OD

FISCAL DESCRIPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development -
Missouri Public Service Commission
Office of Public Counsel
Office of Secretary of State
Missouri Tax Commission
Administrative Hearing Commission
Department of Revenue
Department of Natural Resources

Not Responding:

Numerous Water and Sewer Districts



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February 5, 2013